Aurora Investment Trust – September 2019

Share Price: £1.98 | **Net Asset Value: £1.97** | **Premium: 0.5%**

Market Cap: £129m

Data as at 30 September 2019

Holdings >3% at 30 September 2019	(%)
easyJet	12.4
Sports Direct	10.6
Bellway	8.6
Randall & Quilter	8.4
Lloyds Banking Group	6.9
Tesco	6.8
Dignity	6.5
Phoenix SG Ltd (Stanley Gibbons)	5.6
Redrow	5.2
GlaxoSmithKline	4.6
Ryanair	4.0
Vesuvius	4.0
Hornby	3.7
JD Wetherspoon	3.3
Others <3% (3)	6.2
Cash Position	3.1

The NAV was up 9.2% with the FTSE All Share (incl. dividends) up 2.9% for the month.

September saw a significant recovery in the performance of the Trust. Holdings which performed strongly include: easyJet and Ryanair, which rose 19% and 15% respectively; Bellway & Redrow both up 15% and 16%; and Randall and Quilter posting a 17% increase. Sports Direct, which had been a significant faller in July and August, increased 12% to leave it up 17% on the year. Finally, Tesco and Morrisons both posted 10%+ increases.

As we write this report the overall market environment continues to be clouded by Brexit, but we remain excited about valuations in our portfolio, which shows an upside to intrinsic value of 116%. Recent months have seen us add value by purchasing holdings such as Sports Direct, easyJet and Ryanair, which all have high upsides to intrinsic value. These purchases have been funded through sales of Tesco, Morrisons and GlaxoSmithKline which have lower upsides.

Gary Channon, Phoenix CIO, wrote about our latest addition to the portfolio, Ryanair, as well as an investment outlook, in the Phoenix UK Fund Q3 Report on October 3rd. These are reproduced below for your review:

New Holding – Ryanair

We have discussed the background of the European low-cost airline industry from an easyJet perspective and those basic forces of demographic demand are the same for Ryanair, but it operates in a different space within that market as we have shown previously with our work on their overlap, which remains very modest. When they do go head to head, Ryanair operates at a slightly lower cost and easyJet earns a higher price on its tickets and their returns end up similar. Ryanair does not have a big presence in the main slot constrained European airports like easyJet does.

Ryanair is Europe's biggest airline by passenger numbers, and it is the low-cost producer everywhere that it competes. It is, like easyJet, a product of an inspiration from Herb Kelleher founder and creator of Southwest Airlines, who sadly died earlier this year. He was to aviation what Sam Walton was to retail. Michael O'Leary said of him, "Herb was the Grand Master Yoda of the low-fare airlines. He was the leader, the visionary and the teacher: without Herb there would be no Ryanair, and no low fares airlines anywhere."

Michael O'Leary, an accountant from KPMG, joined Ryanair owner Tony Ryan of GPA as a personal tax advisor but in 1987, then 26 years old, he was sent to Dallas to meet Herb Kelleher and learn about the Southwest Airlines model. He eventually joined Ryanair in 1991 and became CEO in 1994. What he joined was *a small loss-making airline in need of a new approach and his epiphany in Dallas gave him the strategy that he believed would work well in Europe.*

Like the easyJet founder he didn't adopt the Southwest model lock, stock and barrel. He took a quite different approach to customers and staff. Recently he realised, largely through seeing the effect at easyJet, about the positive returns from treating customers well. There are also signs of a changing attitude to staff, which he describes as a liability/cost rather than an asset.

But what he did worked. He started in 1991 with an airline carrying 0.7 million passengers and needing a £20m injection to cover losses. In 2019 it will carry over 140 million passengers (200 times more). He has done that without ever suffering an operating loss in a year and whilst earning an average of 20% per annum on his shareholders equity. He is a master of great capital allocation, both in deploying it and in buying back equity when it is attractive. Since the credit crunch he has handed back close to 7 billion euros to shareholders in the form of buybacks and special dividends.

As we have commented previously with easyJet, there is an intense competitive battle going on in European aviation as a result of more planes than customers. Ryanair and easyJet are filling their planes at prices that whilst still profitable for them is driving others to losses and some out of business. Thomas Cook was just the latest in a long line of casualties. The ability to buy such a great business at a low multiple to cyclically depressed earnings is likely to result in great long-term returns. Ryanair either reinvests profits in the business at a 20% return or hands them back to shareholders.
We have been buying at prices equivalent to 9 to 10 euros when we estimate central intrinsic value before buybacks at c.21 euros. In reality we bought ADRs in New York because only EU based investors can buy the ordinary shares because of EU ownership rules.

As its market continues to expand and its competition reduce, we expect it to continue to be able to grow for some time and in Michael O'Leary we have someone who we are happy to have our capital managed by.

Outlook

For citizens of the United Kingdom, no matter how they voted in the referendum on EU membership, what has followed has been universally disappointing. Divided in their voting they are united in being frustrated, angry and appalled by the inability of the political system to act on that referendum in any way.

However, for those looking to make long term investments in good businesses focused on and listed in the UK, it has been a halcyon period rich in opportunity. That is how we believe it has been for Phoenix. Looked through the lens of intrinsic value, we have seen a rise of 36% between 2016 Q1 and now (2019 Q3) due mainly to the value added through what we have been able to buy and the prices we have paid. That is an increase in value of £3,478 (from £9,575 to £13,053) on what was a starting NAV of £5,122.

This isn't because we have targeted our buying on Brexit related stocks, it's because the fears and uncertainty about what will happen next have lowered *the price of UK related equities and then when individual equities or sectors have fallen for reasons peculiar to them it is from a generally depressed level of the overall domestic market. We have made significant investments over the past 3 years in easyJet, Sports Direct, Dignity, Bellway, Barratt, Randall & Quilter, Redrow and Ryanair all assisted by the backdrop of Brexit.*

The fund value has lagged the increase in IV and only risen by 18% since 2016 Q1 and so that upside to intrinsic value has risen to 116%. When that gap will close, we are never able to predict, but it seems reasonable to think that it might start to happen when there is a resolution to the current political stalemate. There may be further twists and turns to come and we may exit with a bump, but as with the past 3 years we should be able to increase intrinsic value under those conditions.

The thing about British history is that it contains periods of self-inflicted damage and decline followed by a shock which then leads to a glorious revival, for example the underestimating of Hitler culminating in the retreat through Dunkirk and then the winning of the Battle of Britain, getting the US into the war and the eventual victory. The 1970s was another period when the UK went backwards through actions of its own, the rise of union power and the partial shutdown of the economy through strikes culminating in the need for a bailout by the IMF. That was followed by Margaret Thatcher and a golden period of economic recovery. And so once again, the UK is underperforming through actions entirely self-inflicted and this may culminate in a calamitous No Deal Brexit but as in the past, that shock to the system is likely to be the catalyst for a strong and spirited comeback.

At some point in the future this era may well be looked upon more for the recovery it provoked rather than the damage it did. For us, the bumpier the path, the higher the future peaks provided we continue to use our detailed vigilance to avoid potholes. We will keep taking up the opportunities it provides, pushing up the future store of value in the expectation that, as it has in our 21 years of doing this, it will result in excellent long term returns for our investors.

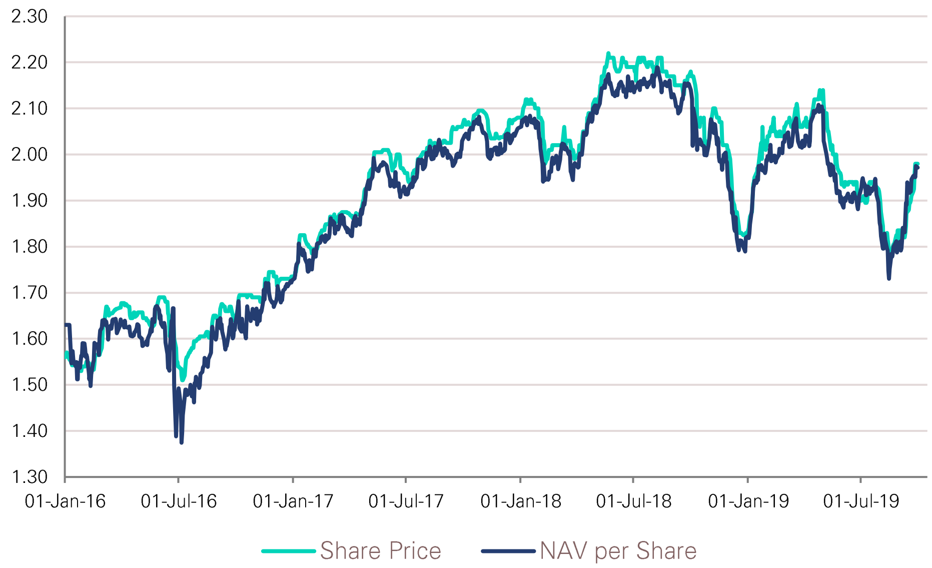
Aurora Track Record

Performance	NAV Return %	Share Price Total Return** %	All-Share Index %**	Relative NAV to ASX %
2019 (to 30 September)	10.5	10.3	14.3	-3.8
2018	-10.3	-10.9	-9.5	-0.9
2017	20.4	21.2	13.1	7.3
2016	6.6	12.0	16.8	-10.1
Cumulative*	27.2	33.2	36.7	-9.5
2015	-2.3	4.3	0.9	-3.2
2014	-11.3	-10.6	1.2	-12.5

* Since 1 January 2016
**Share price return with dividends reinvested; All Share Index returns with dividends reinvested.

The appointment of Phoenix Asset Management Partners ("PAMP") as Aurora's investment manager came into effect in January 2016.

Aurora Share Price & NAV per Share – 30 September 2019



Aurora shares are eligible to be invested in an ISA. Neither the Aurora Investment Trust nor Phoenix Asset Management Partners run such a scheme. You should consult a financial adviser regarding a suitable self-select ISA provider.

The investment strategy of the Aurora Investment Trust is the same as that of the Phoenix UK Fund.

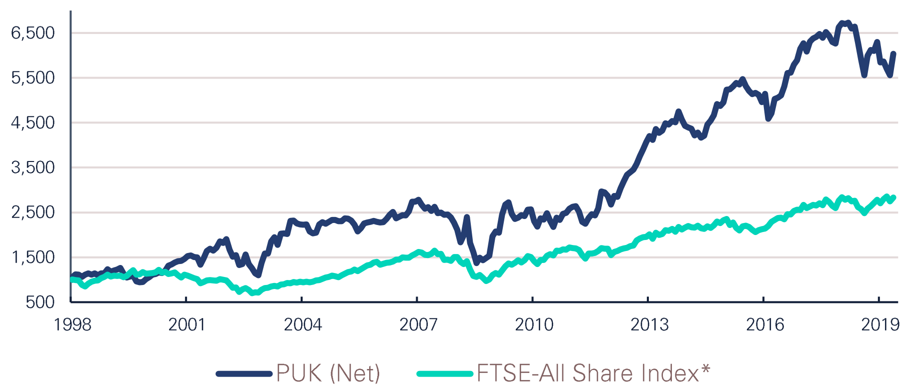
Phoenix UK Fund Track Record

Fund Performance (%)	Gross Return	Net Return	FTSE All-Share Index*	Relative NAV to ASX
Cumulative Since Inception**	917.7	503.6	199.0	304.6
Since Inception Annualised**	11.4	8.8	5.2	3.6

* All-Share Index Returns with dividends reinvested

**From May 1998 to 30 September 2019

Phoenix UK Fund
Value of £1,000 invested at launch to 30 September 2019



Investment Objective

We seek to achieve long-term returns by investing in UK-listed equities using a value-based philosophy inspired by the teachings of Warren Buffett, Charlie Munger, Benjamin Graham and Phillip Fisher. Our approach, combined with thorough research, invests in high quality businesses run by honest and competent management purchased at prices that, even with low expectations, will deliver excellent returns.

Contact

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Fund Manager since 28 January 2016

Portfolio Manager: Gary Channon

Listing: London Stock Exchange

Inception Date: 13 March 1997

ISIN: GB0000633262

Bloomberg: ARR

Fees

Management: None
Performance: One third of returns in excess of the market

Regulatory Notice: